CLEVELAND PUBLIC LIBRARY
BUSINESS DEPT.
CORPORATION FILE

Gray Drug Stores, Inc.

Annual Report to Stockholders
for the Fiscal Year
ended June 30, 1946

MRB
Corp. File

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE - 2400 SUPERIOR AVENUE
CLEVELAND, OHIO

BRANCH OFFICE AND WAREHOUSE - 738 BELLEFONTE AVENUE
LOCK HAVEN, PENNA.

•

Board of Directors

C. W. EVANS
J. G. GOSLING
HENRY GRAY
MORTIMER JACOBS
THOMAS H. JONES
CHARLES B. MERRILL
M. M. NEUBAUER
ADOLPH WEINBERGER
L. J. WOLF

Officers

ADOLPH WEINBERGER ..... *President and Treasurer*
HENRY GRAY ..... *Vice-President*
MORTIMER JACOBS ..... *Vice-President*
MILTON NEUBAUER ..... *Vice-President*
C. W. EVANS ..... *Vice-President, Secretary and Assistant Treasurer*
JOSEPH VALINS ..... *Assistant Secretary*

Registrar and Transfer Agent

THE CLEVELAND TRUST CO.

Auditors

ERNST & ERNST

Counsel

JONES, DAY, COCKLEY & REAVIS

GRAY DRUG STORES, INC.

Cleveland, Ohio
September 14, 1946

To the Shareholders of Gray Drug Stores, Inc.:

The annual report of Gray Drug Stores, Inc. covering the operations of the Company and its subsidiaries for the fiscal year ended June 30, 1946 is submitted herewith. The consolidated balance sheet and consolidated profit and loss and surplus have been examined by Ernst & Ernst, certified public accountants, and their opinion is attached.

On October 1, 1945, the Company issued 20,000 shares of Convertible Preferred Stock, par value $50.00. This outstanding Convertible Preferred Stock was called for redemption on June 29, 1946. Prior to the expiration of the conversion rights of the holders of such stock on June 24, 1946, 18,405 shares of Convertible Preferred Stock were surrendered for conversion, and 36,810 shares of Common Stock were issued through such conversion at the conversion rate of two shares of Common Stock for each share of Convertible Preferred Stock. 3,190 shares of Common Stock, representing the unissued balance of the shares of Common Stock initially reserved for issuance upon conversion, were sold at a price of $27.00 a share.

Net profits for the last fiscal year after deducting all charges, including provisions for depreciation and for all federal and other taxes, were equivalent to $2.56 a share on the 138,500 shares of Common Stock now outstanding (without deducting $24,289.10 of dividends paid on the Convertible Preferred Stock, all of which was redeemed or converted into Common Stock during such fiscal year). This compares with $1.81 a share of Common Stock for the fiscal year ended June 30, 1945 (exclusive of 8,500 shares issued June 28, 1945). A dividend of 25 cents per share of Common Stock was paid on October 2, 1945, and 32½ cents was paid on each of the following dates: January 2, 1946, April 1, 1946 and July 1, 1946. Provision for federal income and excess profits taxes for the last fiscal year was $297,870.80 as compared with $317,055.11 for the preceding fiscal year. The reserve for general contingencies amounted to $136,000.00 on June 30, 1946, an increase of $12,000.00 during the fiscal year.

On June 3, 1946, the Company acquired The Rutledge Drug Company, operating nine stores in Akron, Ohio, and one in Barberton, Ohio, and on the same date the Company purchased a store located in Cleveland, from the La Salle Drug Company. On August 29, 1946, the Company purchased a store located in Erie, from The Kapo Cut-Rate Drug Company. This increased the total units operated by the Company as of that date to ninety-two. To finance these acquisitions and to increase the Company's working capital, a bank loan was procured on August 28, 1946 in the amount of $600,000.00, payable in thirty-three substantially equal quarterly installments.

If you should be unable to attend the annual meeting of shareholders on September 24, 1946, we urge you to fill in, sign and return promptly the enclosed Proxy so that your stock may be voted at that meeting.

Very truly yours,

Adolph Weinberger
President

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and its subsidiaries as of June 30, 1946, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of the Company and its subsidiaries at June 30, 1946, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
September 13, 1946

CONSOLIDATED B

GRAY DRUG STORES, IN

June 30

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits			$ 409,136.35
Trade accounts receivable			99,061.39
Tax stamps—state			57,950.35
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$1,638,965.06	
At warehouses		1,054,047.52	
At laboratory		27,456.51	
		$2,720,469.09	
In transit		164,693.53	2,885,162.62
TOTAL CURRENT ASSETS			$ 3,451,310.71
OTHER ASSETS			
United States Treasury Bonds - at cost - Note A		$ 154,500.00	
Cash surrender value of life insurance		52,374.87	
Refundable federal taxes on income of prior years—estimated		6,200.00	
Miscellaneous receivables, deposits, etc.		39,344.20	252,419.07
FIXED ASSETS—at cost, less reserves for depreciation and amortization			
Land		$ 46,091.10	
Buildings	$ 45,825.51		
Furniture and fixtures, etc.	1,230,437.50		
Leasehold and leasehold improvements	484,092.09		
	$ 1,760,355.10		
Less reserves for depreciation and amortization	981,398.62	778,956.48	825,047.58
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 31,141.18	
Taxes		21,621.19	
Other		3,446.45	56,208.82
			$4,584,987.18

ALANCE SHEET

C., AND SUBSIDIARIES

, 1946

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES

Accounts payable:			
Trade accounts	$ 788,668.57		
Salaries, wages, and commissions	64,852.04		
Pay roll taxes	58,645.18	$	912,165.79
Accrued:			
Taxes (other than taxes on income)	$ 68,380.02		
Rent and interest	46,788.14		115,168.16
Federal and state taxes on income—estimated			452,701.31
TOTAL CURRENT LIABILITIES		$	1,480,035.26

LONG-TERM DEBT

Note payable - maturing April 9, 1950 - Note A	150,000.00

RESERVE

For contingencies	136,000.00

DEFERRED CREDIT

Deposit received in connection with proposed sale of lease—Note B	25,000.00

CAPITAL STOCK AND SURPLUS

Capital stock (without par value):			
Authorized 150,000 shares			
Outstanding 138,500 shares			
Stated capital	$1,688,550.00		
Surplus—Note C:			
Capital surplus	$ 256,647.07		
Earned surplus	848,754.85	1,105,401.92	2,793,951.92
			$4,584,987.18

See notes to financial statements.

CONSOLIDATED PROFIT AND LOSS STATEMENT

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1946

Net sales		$14,700,500.18
Cost of goods sold		9,920,972.99
		$ 4,779,527.19
Selling, general, and administrative expenses		4,157,541.34
		$ 621,985.85
Other income:		
Income from leasehold	$ 20,617.53	
Revenue from telephones, etc.	21,190.70	
Gain on disposal and abandonment of fixed assets—net	7,187.36	
Interest earned	3,451.71	
Miscellaneous	3,447.36	55,894.66
		$ 677,880.51
Other deductions:		
Provision for contingencies	$ 12,000.00	
Interest expense	13,100.18	25,100.18
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 652,780.33
Federal taxes on income—estimated:		
Provision for current year:		
Normal income tax, surtax, and declared value excess profits tax	$ 209,300.00	
Excess profits tax	166,300.00	
	$ 375,600.00	
Refundable taxes ($6,200.00) due to carry-back provisions and other adjustments—net	77.729.20	297,870.80
NET PROFIT		$ 354,909.53

See notes to financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1946

CAPITAL SURPLUS			
Balance at July 1, 1945 and June 30, 1946—no change during year			$ 256,647.07
EARNED SURPLUS			
Balance at July 1, 1945		$ 721,545.41	
Net profit for year ended June 30, 1946		354,909.53	
		$1,076,454.94	
Deduct:			
Cash dividends:			
On common stock:			
$.25 a share paid Oct. 2, 1945	$ 24,625.00		
.32½ a share paid Jan. 2, 1946	32,014.05		
.32½ a share paid Apr. 1, 1946	32,014.02		
.32½ a share payable July 1, 1946	42,308.70D		
	$ 130,961.77		
On preferred stock:			
$.55 a share paid Jan. 2, 1946 $11,000.00			
.55 a share paid Apr. 1, 1946 11,000.00			
.55 a share payable July 1, 1946 2,289.10	24,289.10D		
	$ 155,250.87		
Reduction in carrying amount of investment in subsidiary, acquired during year, to equity in net tangible assets shown by accounts of subsidiary at date of acquisition	66,069.22		
Premium paid on redemption of 1,595 shares of preferred stock	6,380.00	227,700.09	
BALANCE AT JUNE 30, 1946			$ 848,754.85
TOTAL SURPLUS AT JUNE 30, 1946			$ 1,105,401.92

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1946

●

Note A—The United States Treasury Bonds have been deposited with an escrow agent as collateral security for the notes payable of $150,000.00.

Note B—The Company has entered into an agreement to sell, on July 15, 1949, for a consideration of $100,000.00, a lease covering certain premises, a part of which is occupied by one of the Company's stores. Pending such sale, the proposed purchaser has assumed the rights and obligations of the Company under the lease (under the terms of a sublease) and has granted to the Company a lease (to April 30, 1965) covering the portion of the premises now occupied and to be occupied by the Company. At June 30, 1946, the amount of $25,000.00 had been received as a deposit in connection with the foregoing agreement, and the amount of $62,500.00 (not included in the balance sheet) had been deposited in escrow by the proposed purchaser.

Note C—On August 28, 1946, the Company obtained a bank loan of $600,000.00 payable in quarterly installments of $18,000.00 beginning November 28, 1946. The loan agreement provides, among other things, that the Company will maintain consolidated net current assets of not less than $1,000,000.00 and will not declare or pay dividends in excess of consolidated net earnings after June 30, 1945.

Note D—Prior to June 30, 1946, the Company deposited funds with the dividend disbursing agent for payment of dividends payable July 1, 1946.

Note E—Provisions for depreciation and amortization aggregated $117,116.76 for the year.

Note F—On June 3, 1946, the Company acquired the outstanding capital stock of The Rutledge Drug Company (name changed June 28, 1946 to Gray Drug Stores, Inc. of Akron) and the accounts of that company have been included since that date.

Note G—The management of the Company has no knowledge of any contingent liabilities other than pending claims for personal damages, etc., as to which, considering the nature of such claims and the amounts involved, the proceedings are not expected to result in any losses of material amounts to the Company and its subsidiaries.

GRAY DRUG STORES, INC.

Cities in which we operate one
or more stores:

•

Akron, Ohio
Alliance, Ohio
Barberton, Ohio
Bellefonte, Penna.
Bexley, Ohio
Blairsville, Penna.
Bradford, Penna.
Canton, Ohio
Clearfield, Penna.
Cleveland, Ohio
Cleveland Heights, Ohio
Columbus, Ohio
Corning, New York
Cortland, New York
East Cleveland, Ohio
Elmira, New York
Erie, Penna.
Fremont, Ohio
Fulton, New York
Indiana, Penna.
Ithaca, New York
Kane, Penna.
Kittanning, Penna.
Lakewood, Ohio
Lock Haven, Penna.
Mansfield, Ohio
Massilon, Ohio
Oneida, New York
Painesville, Ohio
Punxsutawney, Penna.
Ridgway, Penna.
Rocky River, Ohio
Sandusky, Ohio
Sayre, Penna.
South Euclid, Ohio
St. Marys, Penna.
Steubenville, Ohio
Towanda, Penna.
Warren, Ohio
Williamsport, Penna.
Wooster, Ohio
Youngstown, Ohio